Saskatchewan

Saskatchewan
Finance

Deputy Minister

2350 Albert Street
Regina, Canada
S4P 4A6

(306) 787-6621

91-01853/

August 27, 1990

Honourable Lorne H. Hepworth
Minister of Finance
Room 312
Legislative Building
Regina, Saskatchewan
S4S 0B3

Dear Mr. Hepworth:

It is our honour to submit **The Report of the Advisory Committee on the GST.**

The **Committee Report** contains a number of recommendations that address provincial issues that result from the introduction of the GST. It is the Committee's primary recommendation that complete sales tax harmonization, between the federal and provincial governments, is the only viable, long-term solution to the problems of complexity and inefficiency which result from a dual sales tax environment in Saskatchewan.

The Committee members appreciate the opportunity to provide their views and recommendations to the Minister of Finance on difficult decisions respecting provincial issues that result from the GST's introduction. We commend you for this approach and hope that you will be able to accept our recommendations.

The Committee urges the Minister to publicly release and act upon the Committee's recommendations as soon as possible.

Respectfully submitted on behalf of the Advisory Committee on the GST,

John Wright

Chairman
Advisory Committee on the GST

Enclosure

REPORT OF THE

ADVISORY COMMITTEE ON THE GST

August, 1990

TABLE OF CONTENTS

Report of the Advisory Committee on the GST

Preface

Executive Summary

Issues Examined by the Committee — Page

- Harmonization 1
- Tax on Tax 2
- E&H Tax - GST Interaction 4
- Tax Free Farm Inputs 6
- Fiscal Offsets 7
- Commission Structures 9

Conclusion

Appendix I - Administrative Practices

Appendix II - E&H Tax Base Expansion - Licensed Motor Vehicles

Appendix III - Alternative Commission Structures

Appendix IV - Public Announcement of GST Advisory Committee

PREFACE

On May 16, 1990, the Honourable Lorne H. Hepworth, Minister of Finance, established a provincial Advisory Committee on the GST.

Committee members were appointed from all sectors of the provincial economy and included the following individuals:

• Dale Botting	Canadian Federation of Independent Business
• Robert Waddell	Society of Management Accountants
• Irene Selferling	Consumers' Association of Canada
• Mario Dalla-Vicenza	IPSCO Inc.
• Bob Guest	Institute of Chartered Accountants
• Ray Richards	Producers Pipelines' Inc.
• Don Hudson	Regina Chamber of Commerce
• Brian Kinder	Private Citizen (Regina)
• Jim Yuel	Saskatchewan Chamber of Commerce
• Ken McKinlay	Saskatchewan Home Builders' Association
• Wanda Turgeon	Saskatchewan Wheat Pool
• Gary Beckie	Sask Sport Inc.
• Harvey McEwen	Western Canadian Wheat Growers Association
• Al Tosczak	Private Citizen (Weyburn)
• Ted Reifferscheid	IBEW
• John Wright	Government of Saskatchewan (Chairman)

The Committee's mandate was to assist the Government of Saskatchewan in its examination of the federal GST and provide advice on a number of provincial issues including:

- common administrative areas where the federal and provincial governments could work together and coordinate many administrative functions including assessments and collections;

- the Government's involvement in assisting provincial residents to understand and comply with the GST; and,

- a review of whether the Province should continue to levy the Education and Health Tax on the final retail price including all federal levies.

In its review of the GST, the Committee operated within the following framework:

- The GST, as proposed by the federal government, will be implemented on January 1, 1991.

- **The Committee chose to concentrate its work on "provincial" issues resulting from the GST's introduction. It was not established as a forum for a detailed review of the GST.**

- **The Committee, from the outset, felt that it was urgent to define precisely how the GST and the Education and Health (E&H) Tax would interact. Therefore, the Committee's recommendations would be mostly confined to changes in the E&H Tax, with any negative fiscal impacts resulting from Committee recommendations being offset.**

EXECUTIVE SUMMARY

This is the **Report of the Advisory Committee on the GST.**

In this report the Committee recommends the following:

- **Harmonization:** The Committee recommends, first and foremost, that the Government of Saskatchewan endeavour to participate in a joint federal-provincial sales tax as soon as possible, with the objective of full integration by 1992 or earlier.

- **Tax on Tax:** The Committee recommends that the Government of Saskatchewan remove the GST from the provincial tax base.

- **E&H Tax - GST Interaction:** The Committee recommends that the Government of Saskatchewan harmonize the E&H Tax with the GST on certain administrative practices in order to minimize the complexity resulting from the implementation of the GST.

- **Farm Inputs:** The Committee recommends that the Government of Saskatchewan continue to lobby the federal government for an expansion of the proposed tax free list of single-use farm inputs under the GST.

- **Fiscal Offsets:** The Committee recommends that the Government of Saskatchewan offset the fiscal loss resulting from:

  - applying the E&H Tax "beside" the GST; and,

  - altering some E&H administrative practices so they harmonize with the GST.

  The Committee felt that the Government of Saskatchewan could examine other areas to offset the fiscal loss including expenditure management and/or "other" tax changes.

  In addition, the Committee identified priority areas of temporary E&H Tax base expansion, subject to fundamental principles established by the Committee, where the fiscal loss could be offset.

- **Commissions:** The Committee recommends that the Government of Saskatchewan modify the current E&H Tax commission structure in order to increase the proportion of benefit to small business while maintaining the current cost.

- It is particularly important that the Government make and announce its decisions as quickly as possible.

ISSUES EXAMINED BY THE COMMITTEE

A. HARMONIZATION OF THE GST AND E&H TAX

Committee Recommendation:

The Committee recommends that the Government of Saskatchewan endeavour to participate in the federal Goods and Services Tax as soon as possible, with the objective of full participation by January 1, 1992, or earlier.

Provincial participation in the GST would permit:

- **a broadly based common tax base with a federal sales tax rate and a reduction in the current provincial sales tax rate; and,**
- **a single administrative structure.**

The Committee further recommends that the Government of Saskatchewan immediately reopen discussions with the federal government regarding a National Sales Tax, at which time unique provincial concerns could be addressed.

Advantages:

The Committee believes that the recommendation will:

- **reduce government spending through the removal of duplicated collection and administrative services created by the existence of separate federal and provincial sales taxes;**
- **reduce the level of complexity and uncertainty which will exist for consumers in the absence of a joint sales tax;**
- **reduce the level of compliance costs being placed on the business sector;**
- **remove the inefficiencies which currently result from provincial taxation of business inputs;**
- **permit a lower provincial sales tax rate; and,**
- **increase the fairness of the tax system for low income families through the use of refundable sales tax credits.**

Disadvantages:

The Committee acknowledges that the recommendation will:

- result in a loss of fairness for retailers operating along the Alberta border who market goods and services on which E&H Tax is not currently collected (unless offsetting measures are taken);
- result in a significant redistribution of the provincial tax burden, such that certain products currently exempt under the E&H Tax (i.e. services) would face a combined federal-provincial tax rate of up to 14%; and,
- result in the Province having to accept federal tax base definitions, including an inadequate tax free farm input list.

Other Alternatives Considered:

The Committee reviewed the following alternatives:

- a continuation of the current provincial tax structure operating beside the GST;
- changes to the E&H Tax to "conform" to the GST; and,
- partial retail harmonization.

B. TAX ON TAX ISSUE

Committee Recommendation:

The Committee recommends that the Government of Saskatchewan remove the GST from the provincial tax base for the purposes of:

- E&H Tax; and,
- all other provincial levies which currently include the GST in the provincial base.

Advantages:

The Committee believes that the recommendation will:

- move the Province toward a more competitive tax environment for Saskatchewan businesses relative to other provinces in western Canada;
- reduce the level of complexity which would result if businesses had to include the GST in calculating the provincial tax base;
- remove uncertainty for the consumer, in making the provincial tax base consistent, regardless of the product's GST status;
- increase the accountability of provincial taxation, in that the provincial tax base will not automatically be increased with future GST rate increases; and,
- encourage greater visibility for the consumer on the purchase of retail products.

Disadvantages:

The Committee acknowledges that the recommendation:

- will result in an annual revenue loss of approximately $25 million to the Province; and,
- may result in some longer term complexities for the retailer if tax inclusive pricing by business becomes the norm.

Other Alternatives Considered:

The Committee reviewed the following alternatives:

- continue to include all federal levies in the provincial tax base (maintain the status quo): and,
- continue to include all federal levies in the provincial tax base, but permit "notional reporting" based on a higher provincial rate applied on a tax base that excludes the GST.

C. E&H TAX - GST INTERACTION

Committee Recommendation:

The Committee recommends that the Government of Saskatchewan harmonize the administrative practices of the E&H Tax with the GST in the following administrative areas:

- retailers' and manufacturers' coupons;
- treatment of bad debts;
- discounts on cash payments;
- volume discounts;
- manufacturers' rebates;
- interest on refunds of tax overpayments; and
- extension of the limitation period for filing E&H Tax overpayments from 3 to 4 years.

Upon further review, due to increased administrative complexities, the Committee recommends against harmonizing the E&H Tax with the GST, at this time, in the following administrative areas:

- bottle returns and deposits on other recycled materials; and,
- return frequency and due dates.

Advantages:

The Committee believes that the recommendations will:

- reduce the level of administrative complexity associated with the GST for businesses;
- reduce the level of compliance burden for the business community;
- increase administrative efficiency in the application of the E&H Tax; and
- make the Province better prepared in the event that a joint federal-provincial sales tax is implemented.

Disadvantages:

The Committee acknowledges that the recommendations will:

- create a fiscal shortfall to the Province of approximately $2 to $3 million annually; and,
- not completely harmonize the E&H Tax administrative practices with the proposed GST administrative practices.

Other Alternatives Considered:

The Committee reviewed the following alternatives:

- maintain the current E&H Tax administrative practices; and,
- amend the E&H Tax so that all administrative practices are identical to the GST.

Fiscal Consequences of Administrative Practice Harmonization

Item	Revenue
Retailers' and manufacturers' coupons	($0.1 m)
Treatment of bad debts	($1.0 - $2.0 m)
Cash payment discounts	$0.1 m
Volume discounts	($0.5 m)
Manufacturers' rebates	($0.5 m)
Interest on refunds of tax overpayments	($0.05 m)
Extension of limitation period	($0.1 m)
Total (net)	**($2.0 - $3.0 m)**

D. TAX FREE FARM INPUTS

Committee Recommendation:

The Committee recommends that the Government of Saskatchewan continue to lobby the federal government for an expansion of the proposed tax free status for single-use farm inputs under the GST.

Advantages:

The Committee believes that the recommendation will:

- reduce the cash flow difficulties of the farmer associated with paying GST on major farm inputs and waiting for an input tax credit in respect of the tax paid;
- save the farmer the administrative effort of having to pay the GST and apply for an input tax credit on farm inputs that are farm-use only; and,
- make the federal tax free list more consistent (all farm-use only inputs would be treated equally).

Disadvantages:

The Committee acknowledges that the recommendation will:

- maintain some degree of complexity for vendors which market farm inputs, as they will have to account for taxable and tax free sales to farmers;
- may create a situation where other sectors will lobby to have their "industry specific" purchases also tax free; and,
- violate the basic principle of a broad based consumption tax.

Other Alternatives Considered:

The Committee reviewed the following alternatives:

- a restriction of the provincial policy on exempting farm inputs under the E&H Tax so that it parallels the proposed federal GST list; and,
- the elimination of tax free farm inputs under the GST.

E. FISCAL OFFSETS - E&H TAX

Committee Recommendation:

The Committee recommends that the Government of Saskatchewan offset the fiscal loss resulting from:

- **applying the E&H Tax "beside" the GST; and,**
- **altering some E&H Tax administrative practices so they harmonize with the GST.**

Principles:

The Committee recommends against a temporary general rate increase as a means to offset the fiscal loss.

The Committee recommends that the Minister examine other areas to offset the fiscal loss, including expenditure management and/or "other" tax changes.

The Committee recommends that any base broadening measures must be accomplished within the confines of certain principles.

Any base expansion must:

- **ensure fairness through offsetting measures directed at low income families;**
- **be in a manner which moves towards greater long term harmonization with the GST;**
- **not diminish the competitiveness of the Province's tax environment for Saskatchewan businesses relative to other provinces in western Canada;**
- **not result in a multiple provincial rate structure;**
- **be in the context of broader overall provincial government fiscal policy;**
- **not be piecemeal in its approach;**
- **be simple to administer both on its own and in the context of the federal GST; and,**
- **not result in a significant expansion of the "underground" economy.**

Considerations:

The Committee recommends certain considerations be taken into account regarding E&H Tax base changes.

Any base expansion:

- **short of full harmonization with the GST must be regarded as a temporary means to offset the fiscal shortfall; and,**
- **must broadly distribute the fiscal impact throughout the Saskatchewan economy.**

Priority Areas of Base Expansion:

The Committee recommends that the priority areas of a temporary base expansion are to include:

- **snack foods;**
- **restaurant meals;**
- **selected personal services; and,**
- **selected repair services.**

The Committee further recommends that the Government of Saskatchewan review its policy regarding the exemption limit on adult clothing.

The Committee further recommends that the Government of Saskatchewan alter the current tax treatment of licensed motor vehicles (see Appendix II).

Regressivity:

The Committee recommends that the regressive nature of any temporary base expansion should be offset for low income families through:

- **product-based exemption limits;**
- **enriched sales tax credits; and/or,**
- **an increase in direct social support.**

F. COMMISSION STRUCTURES

Committee Recommendation:

The Committee recommends that the current E&H Tax commission structure be modified so as to increase the proportion of benefit to small business.

Advantages:

The Committee believes that the recommendation will:

- **improve the commission allocation by distributing a greater benefit to small business;**
- **offset the greater compliance costs that are incurred by small business relative to larger firms;**
- **not require additional government funding; and,**
- **improve the competitiveness of Saskatchewan's commission structure vis-a-vis Manitoba's structure.**

Disadvantages:

The Committee acknowledges that the recommendation:

- **will reduce E&H Tax commissions paid to larger businesses.**

Other Alternatives Considered:

The Committee reviewed a number of alternative structures (see Appendix III).

Further Action by the Committee:

The Committee requests that the Department of Finance establish the exact nature of the proposed commission structure so that the objectives of the Committee are implemented.

CONCLUSION

In its report, the Committee has addressed a number of specific issues facing Saskatchewan as a result of the GST's introduction. These issues have been analyzed, options have been explored, and the Committee's recommendations have been described.

The Committee firmly believes that the only viable, long-term solution to the provincial issues addressed in this report is full harmonization of sales taxes between the federal and provincial governments.

However, in arriving at this conclusion, the Committee does not endorse the GST as a satisfactory alternative to sales taxation in Canada. It hopes that discussions between the federal and provincial governments can reopen in order to discuss the potential for a National Sales Tax that involves all provinces, territories and the federal government.

APPENDIX I

ADMINISTRATIVE PRACTICES

The following is a list of the Committee's proposed changes to selected E&H Tax administrative practices so that they are harmonized with the GST:

RETAILERS' AND MANUFACTURERS' COUPONS

Current E&H Tax Treatment:

The E&H Tax applies to the total price of the goods before deduction of the value of a "cents off" coupon. In the case of a fixed price coupon the tax applies to the specific fixed coupon price.

Proposed Treatment:

Apply the E&H Tax to the net price in all cases.

TREATMENT OF BAD DEBTS

Current E&H Tax Treatment:

The E&H Tax must be remitted on credit sales at the time of the sale. Saskatchewan does not allow a refund of tax paid on bad debts.

Proposed Treatment:

Businesses will be able to claim a credit for the tax portion of any bad debts.

DISCOUNTS ON CASH PAYMENTS

Current E&H Tax Treatment:

The E&H Tax applies to the net amount paid after deduction of the discount.

Proposed Treatment:

The Tax would apply before any early payment discount.

VOLUME DISCOUNTS

Current E&H Tax Treatment:

The E&H Tax applies to the amount before any volume discount.

Proposed Treatment:

The Tax would apply to the net amount.

MANUFACTURERS' REBATES

Current E&H Tax Treatment:

The E&H Tax applies to the total price before deducting the value of any rebate. (i.e. manufacturers' rebates netted against the selling price of new cars by the car dealer).

Proposed Treatment:

The Tax would apply to the net price.

INTEREST ON REFUNDS OF TAX OVERPAYMENTS

Current E&H Tax Treatment:

Interest is not paid on refunds.

Proposed Treatment:

Interest would be paid on refunds if the claim is not processed within 21 days.

EXTENSION OF THE LIMITATION PERIOD FOR FILING E&H TAX OVERPAYMENTS

Current E&H Tax Treatment:

A three year limitation period is currently in place.

Proposed Treatment:

The limitation period would be increased to four years.

APPENDIX II

E&H TAX BASE EXPANSION - LICENSED MOTOR VEHICLES

Committee Recommendation:

The Committee recommends that the Government of Saskatchewan modify the E&H Tax treatment of licensed motor vehicle sales by:

- taxing new vehicles on the selling price less trade-in (if applicable);
- expanding the E&H Tax base to include used vehicles sold through dealers (on cash difference in the case of a trade-in); and,
- maintaining the exemption for private used vehicle sales.

The Committee also recommends that the Province strengthen its enforcement of applying the E&H Tax on licensed motor vehicles that were leased, brought in from out of province or were daily rental vehicles.

Advantages:

The Committee believes that the recommendations will:

- increase E&H Tax revenue by approximately $6.5 million per year, with a further potential increase if the change results in more trade-ins and less private vehicle sales;
- be fairer to the consumer since it will relieve some of the price discrepancy between the price of new and used vehicles and will encourage more trade-ins to dealers, thereby encouraging a better stock of Saskatchewan- based used vehicles;
- afford similar treatment with all other provinces with a sales tax (except private sales);
- permit greater harmonization between the E&H Tax and the GST respecting the taxation of licensed motor vehicles;
- be simple to administer, since the tax would be easy to collect directly from dealers; and,
- have a positive effect on the Saskatchewan auto industry.

Disadvantages:

The Committee acknowledges that the recommendations:

- **may be perceived as taxing the poor (decreases the price of new vehicles relative to used vehicles); however, the private vehicle sale exemption should offset this perception.**

Other Alternatives Considered:

The Committee reviewed the following alternatives:

- **maintain the status quo; and,**

- **expanding the E&H Tax base to include the sale of all licensed motor vehicles, including the private sale of used vehicles.**

APPENDIX III

ALTERNATIVE COMMISSION STRUCTURES

Current Structure

Monthly Reporters:

7% of the first $300 of tax collected plus 1% of the balance.

Quarterly Reporters:

7% of the first $900 of tax collected plus 1% of the balance.

Annual Reporters:

7% of the first $3,600 tax collected plus 1% of the balance.

- **Vendors are limited to a maximum commission of $5,000 per year. A vendor would require annual sales of approximately $6.8 million annually in order to be affected by the maximum. About 100 vendors are affected by the maximum.**

- **During 1989-90 the Province paid about $5.5 million in commissions to about 35,000 E&H Tax vendors and registered consumers.**

The following alternatives to the current commission structure were considered by the Committee and are revenue neutral (total commissions paid would remain at approximately $5.5 million).

Alternative 1

Monthly Reporters:

15% of the first $200 of tax collected plus 1% of the balance.

Quarterly Reporters:

15% of the first $600 of tax collected plus 1% of the balance.

Annual Reporters:

15% of the first $2,400 tax collected plus 1% of the balance.

- **Vendors would be limited to a maximum commission of $750 per year. About 1,140 vendors with annual taxable sales over $590,000 would be affected by the maximum commission. All these vendors would receive a smaller commission than under the current system.**

- **All other vendors who remit E&H Tax would receive a larger commission.**

Alternative 2

Monthly Reporters:

10% of the first $200 of tax collected plus 1% of the balance.

Quarterly Reporters:

10% of the first $600 of tax collected plus 1% of the balance.

Annual Reporters:

10% of the first $2,400 tax collected plus 1% of the balance.

- **Vendors would be limited to a maximum commission of $3,000 per year. About 287 vendors with annual taxable sales over $4.0 million would be affected by the maximum commission. All these vendors would receive a smaller commission than under the current system.**

- **About 7,200 vendors with annual taxable sales between $51,000 and $4.0 million would have no change in their commission. All other vendors who remit E&H Tax would receive a larger commission.**

Alternative 3

Monthly Reporters:

10% of the first $300 of tax collected plus 1% of the balance.

Quarterly Reporters:

10% of the first $900 of tax collected plus 1% of the balance.

Annual Reporters:

10% of the first $3,600 tax collected plus 1% of the balance.

- **Vendors would be limited to a maximum commission of $1,200 per year. About 640 vendors with annual taxable sales over $1.25 million would be affected by the maximum commission. All these vendors would receive a smaller commission than under the current system.**

- **All other vendors who remit E&H Tax would receive a larger commission.**

Alternative 4

Monthly Reporters:

10% of the first $250 of tax collected plus 1% of the balance.

Quarterly Reporters:

10% of the first $750 of tax collected plus 1% of the balance.

Annual Reporters:

10% of the first $3,000 tax collected plus 1% of the balance.

- **Vendors would be limited to a maximum commission of $1,850 per year. About 520 vendors with annual taxable sales over $2.2 million would be affected by the maximum commission. All these vendors would receive a smaller commission than under the current system.**

- **All other vendors who remit E&H Tax would receive a larger commission.**

APPENDIX IV

PROVINCE ANNOUNCES FIRST ADVISORY COMMITTEE MEETING ON THE GST

The Honourable Lorne Hepworth today announced that Saskatchewan's GST Advisory Committee had been finalized and that its inaugural meeting will be held on July 9, 1990.

"The Advisory Committee, which I announced on May 16, will assist the Government of Saskatchewan in its examination of the federal GST," the Minister said, in announcing that the following appointments to the Committee have been confirmed:

Dale Botting	Canadian Federation of Independent Business (CFIB)
Robert Waddell	Society of Management Accountants
Irene Seiferling	Consumers' Association of Canada
Mario Dalla-Vicenza	IPSCO Inc.
Bob Guest	Institute of Chartered Accountants

Ray Richards	Producers Pipelines Inc.
Don Hudson	Regina Chamber of Commerce
Brian Kinder	Private Citizen (Regina)
Jim Yuel	Saskatchewan Chamber of Commerce
Ken McKinlay	Saskatchewan Home Builders' Association
Wanda Turgeon	Saskatchewan Wheat Pool
Gary Beckie	Sask Sport Inc.
Harvey McEwen	Western Canadian Wheat Growers Assoc.
Al Tosczak	Private Citizen (Weyburn)
John Wright	Government of Saskatchewan (Chairman)

"The Committee brings together representatives of business, agriculture and consumers in an effort to minimize the difficulties that the GST will create for residents of Saskatchewan," stated the Minister.

The Committee is expected to provide advice on a number of provincial issues that will arise as a result of the GST including:

- Common administrative areas where the federal and provincial governments could work together and coordinate many

administrative functions, including taxpayer information, assessment and collection;

- The Government's involvement in assisting provincial residents to understand and comply with the GST; and,

- A review of whether the Province should continue to levy the Education and Health Tax on the final retail price, including all federal levies.

The first meeting of the Advisory Committee is scheduled to occur on July 9, 1990, with subsequent meetings to be called as required.

For further information, contact:

John Wright
Acting Deputy Minister of Finance
787-6621